

RECRUITING RETAIL INVESTMENT

CITY OF MESA
RETAIL DEVELOPMENT TASK FORCE

FINDINGS AND RECOMMENDATIONS

January, 2003



RECRUITING RETAIL INVESTMENT

A REPORT FROM THE RETAIL DEVELOPMENT TASK FORCE

INTRODUCTION

Retail investment is one of the cornerstones of Mesa's economy. Retail is what residents and visitors see — and seek out, to meet their daily needs — as they live, work and play in our community. Significant or unique retail developments often become an important part of a community's public image and reputation. They attract people to them, and convey a certain ambiance and quality of life message about the community which can lead not only to retail sales, but to the attraction of business and industry, and the jobs, community investment and spending power that go with them. And in Mesa, with City government dependent on sales tax collection for roughly 41 percent of its general fund revenue, retail sales play an especially pivotal role in ensuring that our municipality can continue to provide the 'Quality Services' — such things as police, fire, parks, recreation, libraries — for which it is well known.

Since other cities in the Valley also collect taxes, we compete with them to attract the restaurants, specialty stores, movie theaters, auto dealers and other retailers which generate this revenue — and we vie for the shoppers who make it possible, too. Is there sometimes controversy regarding the location of retail developments in our community? Certainly. Does focusing on retail development produce the same long-range revenue benefits to the community as attracting and retaining a regional office complex or large industrial employer? Usually not. But understanding and taking full advantage of the complex interrelationship and balance among retail development, consumers, and business/industry is key to Mesa's economic future — and so, in this Report, the Task Force has treated it so.

As the Task Force explored the intricacies of retail business investment, it acknowledged that the decision to open a retail business on a particular site normally is based on the retailer's narrowly-defined financial criteria: the sales the retailer expects to generate within the target trade area. But well-informed, expert municipal economic development staff can positively influence those retail investment decisions by drawing attention to a market or a location that otherwise might be misunderstood or overlooked, and by facilitating the analyses and negotiations which might lead to successful siting of retail businesses in Mesa. Hence, the Task Force's recommendation to proceed with an aggressive retail recruitment program, which includes suggested improvements to internal customer service processes and to external outreach efforts, to fully engage the retail community.

RETAIL DEVELOPMENT — UNDERSTANDING THE ECONOMIC FOOD CHAIN

The first step in building a retail development strategy is to understand its role in the Greater Phoenix-Mesa metro area economy. There are three parts to our region's economy — basic industries, supplier industries, and non-basic consumer (or retail) industries. If Mesa does not sustain a healthy basic foundation, an emphasis on retail development will be misplaced in the long run.

This is because a strong foundation of basic industries is fundamental to a healthy economy — no basic segment, no sustainable economy. The key to self-generating economic development is to help create and protect basic industries. Basic industries bring outside expenditures into the community and support the supplier and consumer industries. Within this hierarchy, it is important to understand that retail development is a dependent part of the regional economy.

- **Basic industries** are the foundation of economic vitality. They sell goods and services to markets outside the local area, and the population they support buys retail goods and services.
- **Supplier industries** sell directly to basic industries. These include goods and services, like photocopy stores, that are sometimes part of "retail" development. The population they support also buys retail goods and services.
- **Nonbasic consumer (or retail) industries** provide the goods and services needs of market population — those supported by basic industries, supplier industries, and other consumer industries. Economically, the benefit of this kind of development is to stop "retail leakages" — to keep retail purchases inside the local economy, which makes the local economy larger and more self-sufficient.

It is important to note that the definition of "basic" depends on the localization of economic development. For example, in the context of Greater Phoenix-Mesa (twenty-four cities and towns, 3.4 million population), Fiesta Mall and Superstition Springs Center are nonbasic consumer industries. However, in the context of their host city, Mesa (population 435,000), its regional malls are one of its most important basic industries, which sell to the sub-regional market known as the East Valley (1.1 million population). Nonbasic consumer industries in Mesa are those in centers that serve its localized neighborhood population.

Thus, in Mesa, a retail development strategy can include components for basic industries (mostly retail businesses that serve regional populations) and nonbasic industries (businesses that serve local populations). In either case, the challenge is to recruit retail development that draws in expenditures from outside the community, while also reducing "sales tax leakage" by local consumers.

RETAIL DEVELOPMENT TASK FORCE

To help bolster Mesa's economy, the City of Mesa formed a Retail Development Task Force in June, 2002. The task force is comprised of employees from throughout the organization [see Exhibit A]. This group was charged with developing and implementing an aggressive retail recruitment program. Additionally, they were asked to review City services currently available to the retail industry and determine which elements are important for businesses to succeed.

Task force members met several times over the next few months, with meetings co-chaired by Richard Mulligan, Economic Development Director and Jenny Sheppard, Assistant to the City Manager, and supported with facilitation by Laurie Goggin, Quality and Organizational Development Office Administrator.

To accomplish their mission, task force members reviewed background information on relevant City policies, examined benchmark data obtained from other communities in the metro area, conducted an environmental scan regarding local strengths, weaknesses, opportunities, threats and trends, and performed a gap analysis comparing Mesa's current practices to a desired vision for future success.

TASK FORCE FINDINGS

Major findings of the Retail Development Task Force are outlined below:

1. ***Mesa 2025: A Shared Vision*** outlines numerous goals, objectives and policies supportive of retail development in the City of Mesa.
 - Existing master plan documents emphasize the need to concentrate on both new retail development and revitalization opportunities in older areas of the community.
 - Recommended tactics for implementation include: annexation, balanced land use and housing development, dedicated staffing, financial incentives, infill development, quality urban design, and revitalization of super-regional retail districts.
 - There is a need to diversify Mesa's revenue base.
2. The ***2002 Survey of Buying Power*** published by *Sales and Marketing Management* magazine indicates that Mesa ranks second in total retail sales (\$6,065,062,000) [see Exhibit B]; third in effective buying income (\$6,921,498,000) [see Exhibit C]; and has the second largest buying index (.1446) within the Phoenix-Mesa metropolitan area [see Exhibit D]. Effective buying income (EBI) is a measurement of disposable income, and

the buying power index (BPI) is a unique measure of spending power that takes population, EBI, and retail sales into account to determine a market's ability to buy—the higher the index, the better.

- Motor vehicles and parts dealers represent the largest component of retail sales by store group (\$1,835,786,000); followed by general merchandise (\$900,247,000); food and beverage stores (\$641,881,000); food service and drinking establishments (\$486,302,000); and furniture/home furnishings and electronics/appliances (\$309,351,000) [see Exhibit E].
 - Mesa's median household effective buying income (\$38,972) is lower than the Phoenix-Mesa metro median household effective buying income (\$41,120) [see Exhibit F].
 - As a percent of households, Mesa has a comparatively higher share of the \$20,000 - \$34,999 and \$35,000 - \$49,999 effective buying income groups; a lower share for \$50,000 and over [see Exhibit F].
 - From a volume perspective, Mesa has the second largest number of households in the \$50,000 and over group [see Exhibit F].
3. Grubb & Ellis' ***Metro Retail Trends*** bi-annual report for 2002 indicates that the Greater Phoenix-Mesa metropolitan area has a total of 94,086,281 square feet of built retail space. Of that total, the Mesa submarket has 14,724,819 square feet, which represents a 15.65% share of the region's retail space. Concurrently, the City of Mesa has approximately 12.1% of the Greater Phoenix-Mesa metropolitan area population [see Exhibit G].
- Neighborhood retail (7,843,539 sq. ft.) represents the largest classification in Mesa; followed by regional retail (2,805,000 sq. ft.); power centers (2,369,634 sq. ft.); and strip shopping centers (1,706,646 sq. ft.) [see Exhibit H].
4. The ***League of Arizona Cities and Towns*** web site provides a comparative listing of state and local retail tax rates:
- Within Maricopa County, the general sales tax rates for cities and towns ranges from 1% to 3%. Four communities have a lower sales tax rate (1% to 1.4%); three are equivalent to Mesa's rate of 1.5%; and sixteen have higher rates (1.6% to 3%) [see Exhibit I].
 - Within Maricopa County, the total retail tax rate – state, county and local – ranges from 7.3% to 9.3%. Three communities have established a lower total retail tax rate (7.3% to 7.7%); three are

equivalent to Mesa's rate of 7.8%; and sixteen communities have higher rates (7.9% to 9.3%) [see Exhibit I].

5. ***City of Scottsdale Economic Trends (August 2002)*** examines trends in sales tax collections, and offers a comparison between Phoenix-Mesa metro area communities.
 - Total general fund sales tax collections in Fiscal Year 2001-2002 for the City of Mesa were \$102.6 million (ranked third behind the Cities of Phoenix and Scottsdale) [see Exhibit J].
 - Sales tax collections per capita (collections adjusted to 1%) for the City of Mesa were \$165 (ranked sixth behind the Cities of Scottsdale, Tempe, Peoria, Chandler, and Phoenix) [see Exhibit K].
6. Formal retail recruitment programs have already been established by the Cities of Apache Junction, Chandler, Glendale, Goodyear, Phoenix, Scottsdale, Surprise, Tempe and Town of Gilbert [see Exhibit L].
 - Communities with retail information made available on public websites include the Cities of Apache Junction, Avondale, Buckeye, Chandler, Gilbert, Glendale, Goodyear, Phoenix, Scottsdale, Surprise and Tempe.
 - Retail promotional packages are used by the Cities of Apache Junction, Avondale, Chandler, Gilbert, Glendale, Goodyear, Scottsdale and Surprise.
 - The Cities of Chandler, Gilbert, Glendale, Goodyear, and Scottsdale market their communities by attending International Council of Shopping Center (ICSC) conferences and trade shows.
 - Various retail incentives are being developed and/or offered by the Cities of Apache Junction, Avondale, Chandler, Gilbert, Glendale, Goodyear, Mesa, Phoenix, and Tempe (i.e. development agreements, redevelopment programs, sales tax rebates, super retail ordinance).
 - The Gila River Indian Community, Town of Queen Creek, and Salt River Pima-Maricopa Indian Community are also important competitors for retail development.
7. Although Mesa's on-site approval process for sales tax license applications is operating effectively, the turn around time for applications mailed by local businesses needs to be streamlined.
 - 19,211 sales tax licenses (September 30, 2002).

- Processing time for mailed sales tax license applications can reach 30 days, while the on-site approval process (plain vanilla type) is approximately 20 minutes.
 - The Mesa City Council recently authorized an increase in the sales tax license fee from \$25 to \$50.
8. Broad mixes of land development process improvements are being implemented by the City of Mesa.
- Thirty-four specific process improvements are being tracked as part of the City of Mesa Land Development Work Plan:
 - New automation/on-line permitting
 - Business process audit
 - New City of Mesa Rehab Code
 - Simplified fee valuation table
 - Microfilm digitizing
 - Updated microfilm procedure
 - Impact fee administration
 - Revised permit applications
 - New Charge Account Policy
 - Section 301 Uniform Administrative Code revision to permit policy
 - Construction start times
 - ADA Section 504 Update/BSD
 - Multiple plan submittal pilot program
 - Increase plan review communication between staff, applicants, developers and owners
 - Building inspection comments in the field
 - Customer outreach
 - Project coordinator position
 - Zoning code update
 - Strategic plan for Planning Division
 - Bilingual brochures
 - Desert Uplands update
 - Citrus Sub-area Plan
 - Public participation process
 - Planning Infill Development Policy
 - "SCIP and DIP"
 - Planning/BSD process improvement initiative
 - Customer service surveys
 - Fire Sprinkler Ordinance review
 - Fire Code Interpretations Sub-Team
 - Fire Inspection Procedures Sub-Team

- BSD/Fire Task Force
 - Process Improvement/Management Team
 - Inspector Qualifications Sub-Team
 - City of Mesa Fire Inspection Procedure
- Zoning inspection duties are being transferred from building inspectors to zoning inspectors to ensure that retail development projects are built in accordance with approved plans, which helps to maintain sustainable developments.
 - There are strong perceptions that Mesa's Land Development Process Team is understaffed. However, no current benchmark data is available for review.
9. Certain signage and special event license requirements adopted by the City of Mesa might be more restrictive than those adopted by competitor communities.
- Retail signs are limited to a 12-foot height throughout Mesa, unless a comprehensive sign plan has otherwise been approved by the Board of Adjustment. Existing non-conforming signs must be removed whenever a new sign permit is issued; or a new construction permit is issued that invokes electrical, plumbing, or tenant improvement permits; or the use is abandoned for 180 days.
 - Special banners and similar signage are permitted only for the initial opening of a new business, new occupancy, or new proprietor or management for a maximum period of 30 days.
 - Community benchmarking data on special event licenses hasn't been gathered for about a decade.
 - Special events are limited to a maximum duration of three consecutive days. Additionally, no more than three special events can be conducted on the same premises during the calendar year. Approval of requests to exceed these provisions requires approval of a Special Use Permit by the Planning and Zoning Division.
10. Requests for information on water/wastewater infrastructure are difficult to process in a timely manner.
- Water and wastewater infrastructure data made available on Geographic Information System (GIS) maps is incomplete (especially east of Power Road).

- Information that is not available electronically has to be tracked down manually; it can take up to 3 weeks to prepare an appropriate response.

TASK FORCE RECOMMENDATIONS

Retail Development Task Force recommendations are outlined below:

1. Adhere to development policies outlined in the Mesa 2025: A Shared Vision master plan documents.
 - Expand Mesa's retail business to reduce "sales tax leakage" and strengthen its retail position in the East Valley.
 - Facilitate master-planning and development of the Hurley Property as a mixed-used development site located at Dobson Road and the Red Mountain Freeway (Loop 202).
 - Work with Fiesta Mall, Superstition Springs Center and others to create "super-regional retail districts" and facilitate meetings with owner groups.
 - Identify future retail development sites along the Santan Freeway Corridor and eastern portion of the Superstition Freeway Corridor.
 - Create multiple economic development incentive programs addressing expedited permit processing, property clearance, public infrastructure assessment district funding, selective bonus densities to induce development, economic development ventures funding, and property reuse development "gap" funding.
 - Continue utilizing sales tax rebates on a selective basis.
 - Promote infill development and redevelopment in older areas of Mesa.
 - Continue working with the Infill Development Advisory Committee/Technical Team to formulate recommendations on infill development standards.
 - Implement recommendations impacting retail businesses that are outlined in the Mesa Lutheran Neighborhood Revitalization Master Plan.

- Evaluate the feasibility of creating a “pilot” commercial reinvestment program similar to one being considered by the City of Chandler (and modeled after one administered by the City of Glendale) that deals with high vacancies, aesthetics and signage in a target area.
- Create long-range redevelopment plans for the Broadway Road, Main Street and University Drive Corridors (extending from Mesa’s western border near the Price Freeway to Gilbert Road).
- Maintain the close working relationship that exists between the Offices of Economic Development, Redevelopment, Neighborhood Services and various small business service providers for entrepreneurial and small business development.
- Promote upscale housing developments.
 - Mesa has made great headway in attracting high-end housing through master-planned communities and other new subdivisions that better meet the need of executives and professionals who have located in the East Valley. It is important for Mesa to continue to provide the types of housing that appeals to these individuals as part of an overall effort for retail development. Executive and professional housing could have significant implications for the economic well-being of Mesa.
 - Maintain and upgrade Mesa’s older housing stock.
 - Evaluate the potential for annexing state trust land that is located north and east of the Williams Gateway employment center.
 - Protect Williams Gateway Airport flight corridors.
- Support efforts to create a financial forecasting model.
 - Identify options for diversifying Mesa’s revenue base.
 - Evaluate the feasibility of issuing bonds for economic development/redevelopment similar to a \$50.1 million bond issue approved by City of Glendale voters.

2. Establish a formal retail recruitment program in the Office of Economic Development.
 - Hire and/or designate a Retail Recruitment Specialist who can work consistently in this area.
 - Initiate a business visitation program for major sales tax revenue generators.
 - Maintain dialogue with new auto dealerships initiated on October 24, 2002.
 - Maintain dialogue with representatives from major retail shopping centers.
 - Aggressively market Mesa's retail development opportunities.
 - Create retail promotional materials and related content and make it available on the City's Website.
 - Effectively utilize *Business Analyst* software to perform customized research (i.e. population, household income, etc.) for retail clients.
 - Inventory retail development sites and interface effectively with retail-oriented developers, property owners and real estate brokers.
 - Participate in International Council of Shopping Center forums and events.
 - Track and publish retail-oriented performance measures.
 - Prepare a *Retail Market Analysis for the City of Mesa* annually.
3. Continue to implement various tasks outlined in the City of Mesa Land Development Work Plan.
 - Additionally, benchmark staffing capacities, services and timelines with neighboring cities to evaluate Mesa's competitive position relative to land development processes.
 - If benchmark data validates perceptions that Mesa's Land Development Process Team is understaffed, identify potential revenue sources to bolster staff's capacity to perform at an appropriate level.

- Assign project coordinators to major retail development projects for the plan review/permitting process.
4. Enhance Mesa's sales tax license application process.
 - Identify improvements needed to speed processing of mailed sales tax applications.
 5. Benchmark signage and special event requirements to evaluate Mesa's competitive position relative to code compliance activities.
 - Determine feasibility of allowing retail signs along freeway corridors.
 6. Augment existing water/wastewater infrastructure data made available on GIS maps to reflect community-wide systems.
 - Ensure that requests for service are handled within 72 hours.

MOVING FORWARD

Mesa has enjoyed above average retail sales during the *past* twenty-five years. Explosive population growth and residential development, coupled with the visionary decision to annex both sides of the Superstition Freeway (US 60), have contributed to Mesa's historical retail dominance in the East Valley. However, that will change dramatically in the next decade.

We are already finding that Mesa's retail sales tax base is vulnerable to retail development occurring in adjacent cities. Both Chandler and Gilbert have grown to the point where they can now support their own major retail centers. In fact, they have emerged as direct competitors to Mesa for the new affluent customers sought by retailers. Demographics are shifting in their favor and as their new retail centers open, those located in Mesa will be impacted. This trend has already begun with the opening of the Chandler Fashion Center in Fall, 2001. It will continue for the near-term as new retail projects follow expansion of the Santan Freeway through Chandler and Gilbert.

It is a sobering thought to consider that when the Chandler Fashion Center opened a year ago, Fiesta Mall was already older than Tri-City Mall was when Fiesta Mall first opened. We all understand how Fiesta Mall impacted the Tri-City Mall—it cut off access to new customers towards the south, which is exactly what Chandler Fashion Center is now doing to Fiesta Mall. And that is likely only the tip of the iceberg of challenges new retail development along the Santan Freeway will present to Mesa in coming years. We need to begin working harder now in order to maintain our current retail sales tax per capita amount—and recognize an even more significant effort will be needed to enhance it in the future.

Successful retail development along the Superstition Freeway, the new Red Mountain and Santan Freeways, the General Motors property and around Williams Gateway Airport—combined with continued redevelopment in Mesa’s older urban areas—will be deciding factors on the long-term economic viability of Mesa. That is where the issue will be decided on whether or not Mesa will be a sustainable community in the *next* twenty-five years.

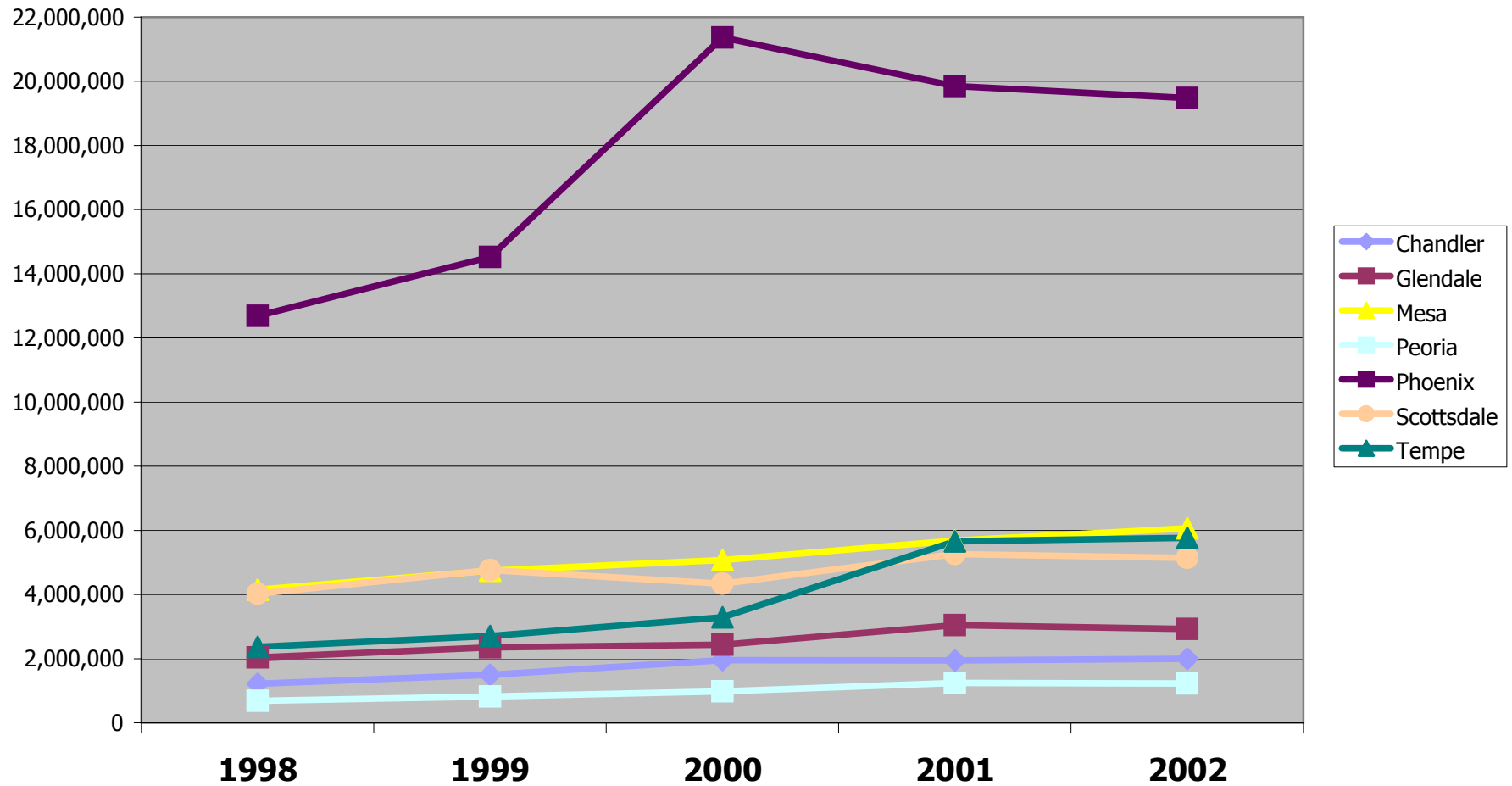
Exhibit A

Retail Development Task Force Membership Roster

Richard Mulligan, *Office of Economic Development* (Co-Chair)
Jenny Sheppard, *City Manager's Office* (Co-Chair)
Laurie Goggin, *Quality and Organizational Development* (Facilitator)
Tom Albright, *Planning and Zoning Division*
Don Ayers, *Tax and Licensing Division*
Wayne Balmer, *Williams Gateway Area of Regional Economic Activity*
Ricardo Barcelo, *Budget Office*
Jamie Brennen, *Marketing and Communications*
Dan Brewer, *E-Streets and Licensing Division*
Tanya Collins, *Neighborhood Outreach*
Orion Goff, *Building Safety*
Bill Haney, *Water Utilities*
Greg Marek, *Office of Redevelopment*
Dawn Osterhaus, *Information Services Division*
Jerry Paulus, *Gas Utilities*
Bill Petrie, *Code Compliance Division*
Mike Renshaw, *Neighborhood Outreach*
Emily Stowe, *Office of Economic Development*
Mary Wade, *City Attorney's Office*

Exhibit B

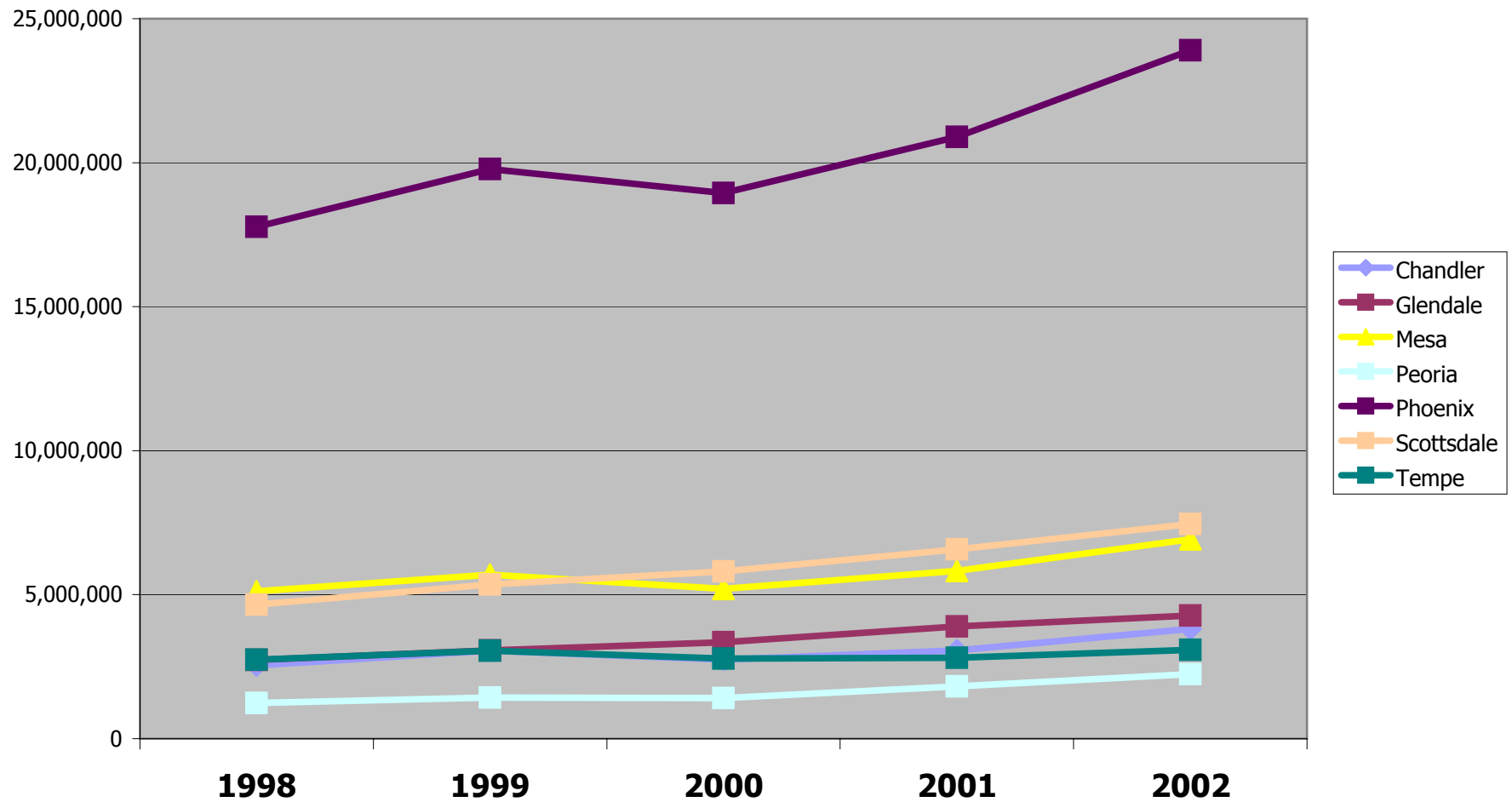
Total Retail Sales (\$000)



Source: 2002 Survey of Buying Power, Sales and Marketing Management

Exhibit C

Total Effective Buying Income (\$000)

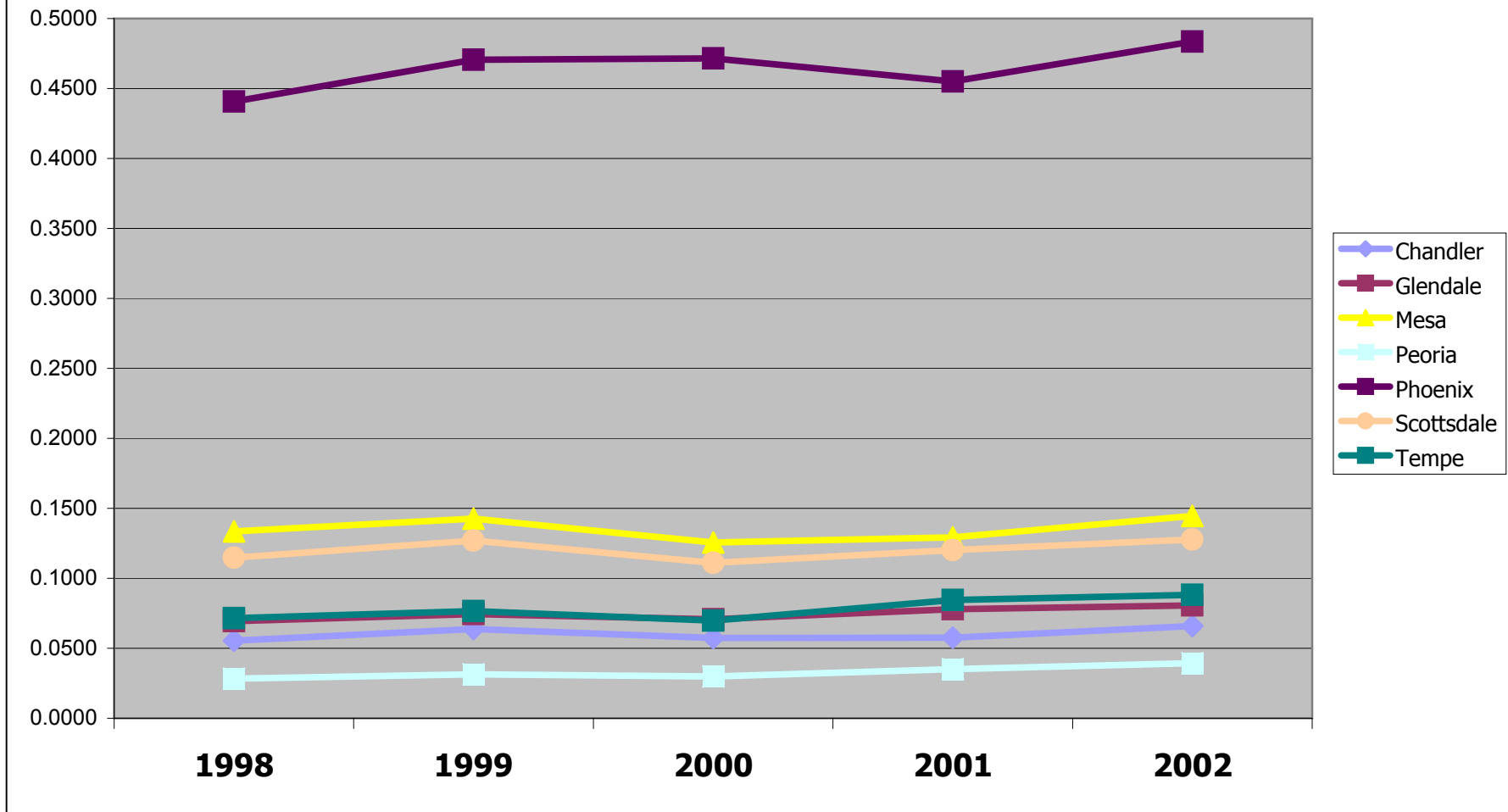


Source: 2002 Survey of Buying Power, Sales and Marketing Management

Exhibit D

Buying Power Index

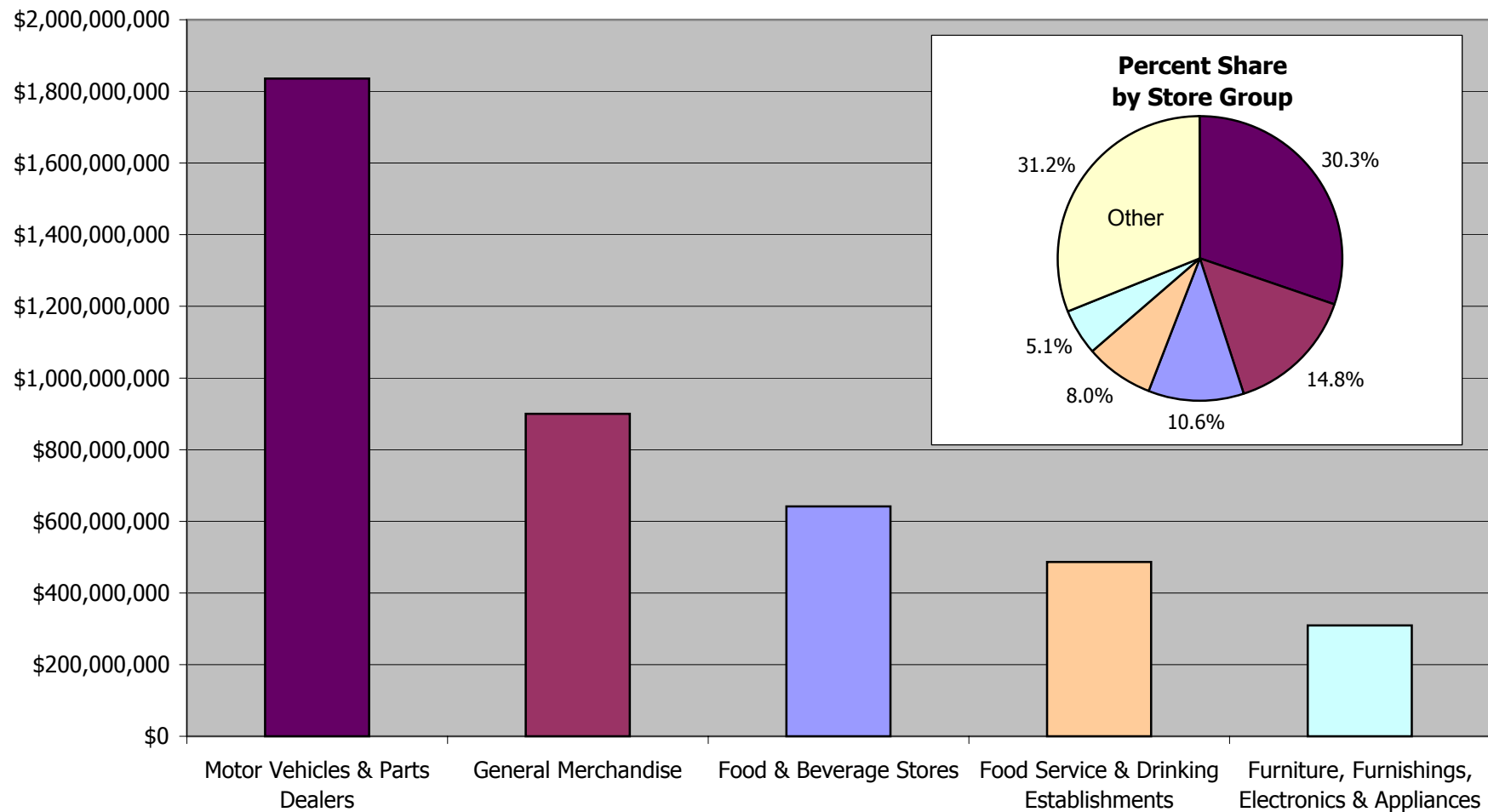
(Market's Ability to Buy as a % of the National Total 100%)



Source: 2002 Survey of Buying Power, Sales and Marketing Management

Exhibit E

Mesa Retail Sales by Store Group



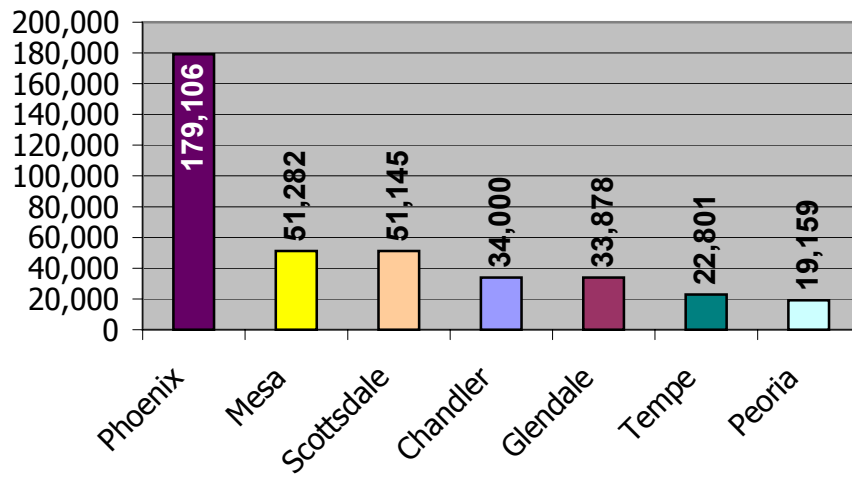
Source: 2002 Survey of Buying Power, Sales and Marketing Management

Exhibit F

Effective Buying Income (EBI)

	Total EBI	Median Household EBI	% of Households by EBI Group		
			\$20,000-34,999	\$35,000-49,999	\$50,000 & Over
Phoenix	\$23,905,851,000	\$40,795	23.8%	21.6%	36.8%
Scottsdale	\$7,457,461,000	\$53,248	17.6%	17.1%	53.0%
Mesa	\$6,921,498,000	\$38,972	26.3%	22.7%	33.3%
Glendale	\$4,274,363,000	\$44,812	20.8%	20.7%	42.4%
Chandler	\$3,814,240,000	\$50,010	18.3%	21.7%	50.0%
Tempe	\$3,081,536,000	\$38,701	24.1%	20.7%	34.6%
Peoria	\$2,238,283,000	\$47,549	19.9%	21.8%	45.4%
Maricopa County	\$62,209,358,000	\$42,286	22.9%	21.1%	39.1%
Phoenix-Mesa	\$64,067,153,000	\$41,120	23.4%	20.9%	37.6%
Arizona	\$92,256,767,000	\$36,570	25.3%	20.3%	32.1%

Number of Households Over \$50,000



Percent Share of EBI for Phx-Mesa

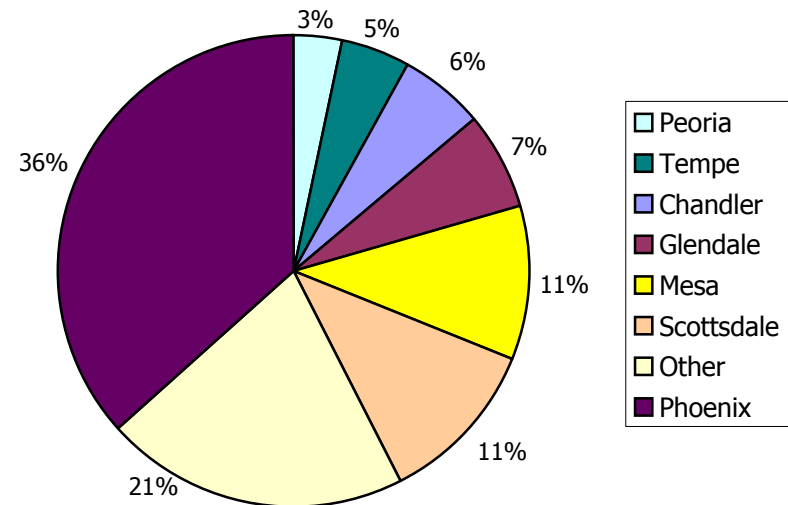
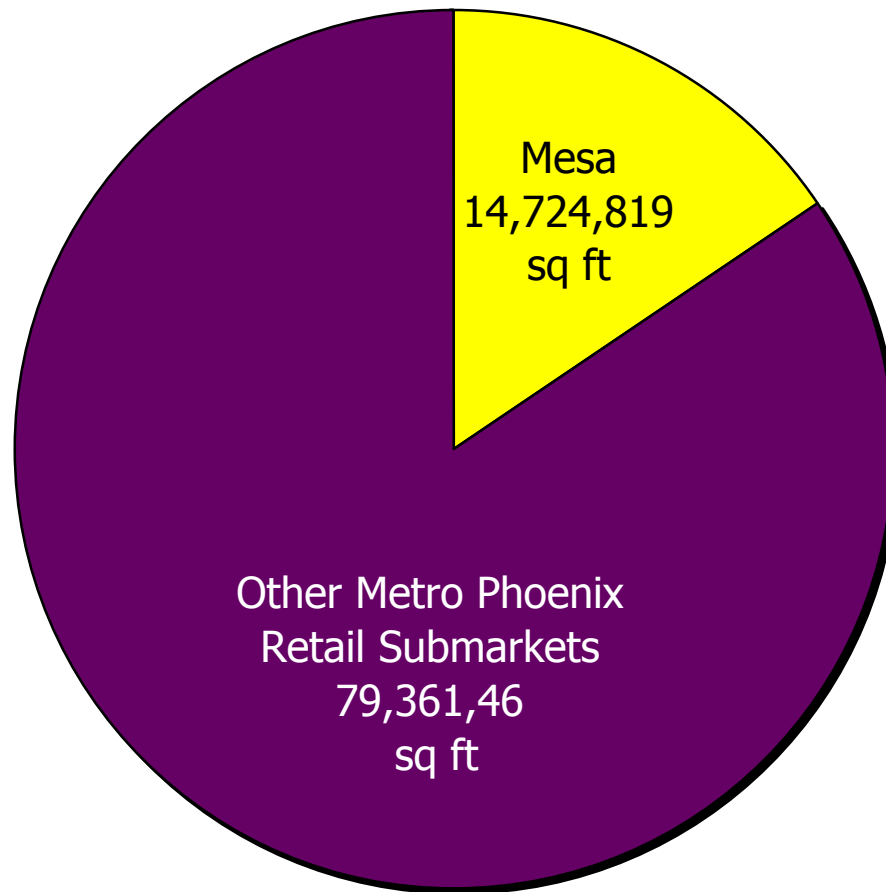


Exhibit G

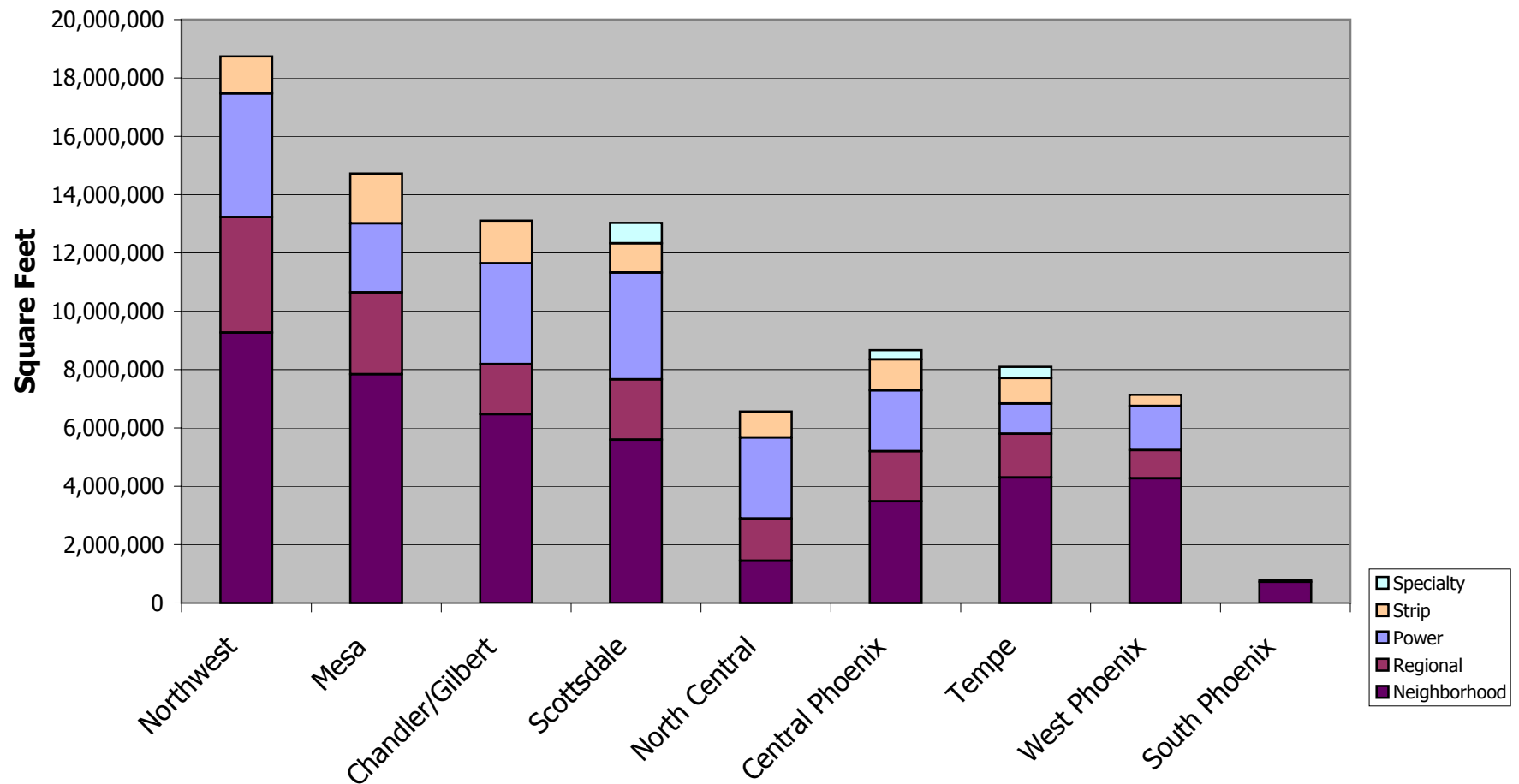
Metro Phoenix Retail Market



Mesa has approximately 12.1% of the Greater Phoenix metropolitan area population, and 15.7% of the region's retail space.

Exhibit H

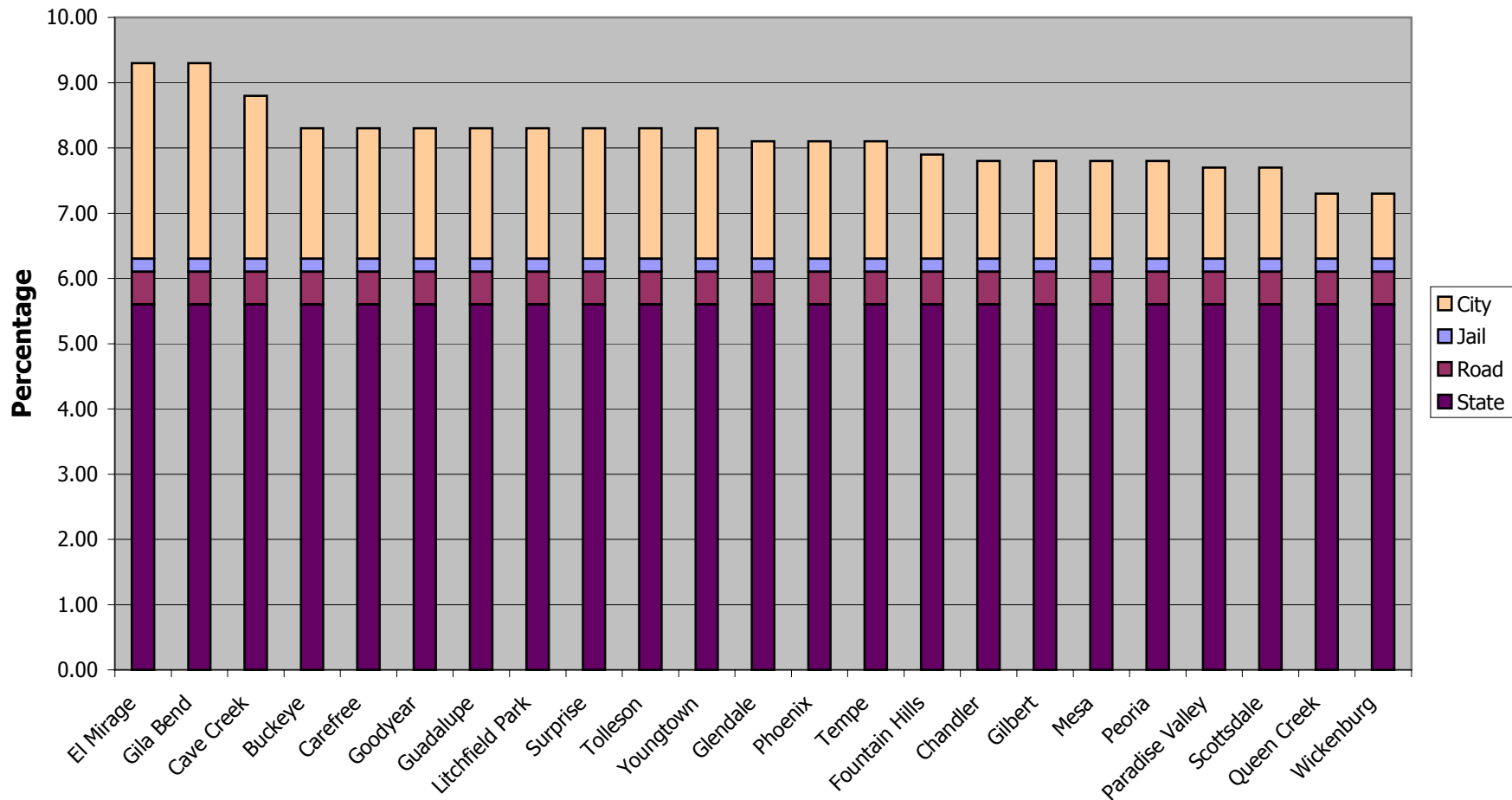
Metro Phoenix Retail Market



Source: Grubb and Ellis Company

Exhibit I

State and Local Retail Tax Rates



Source: League of Arizona Cities and Towns, May 2002

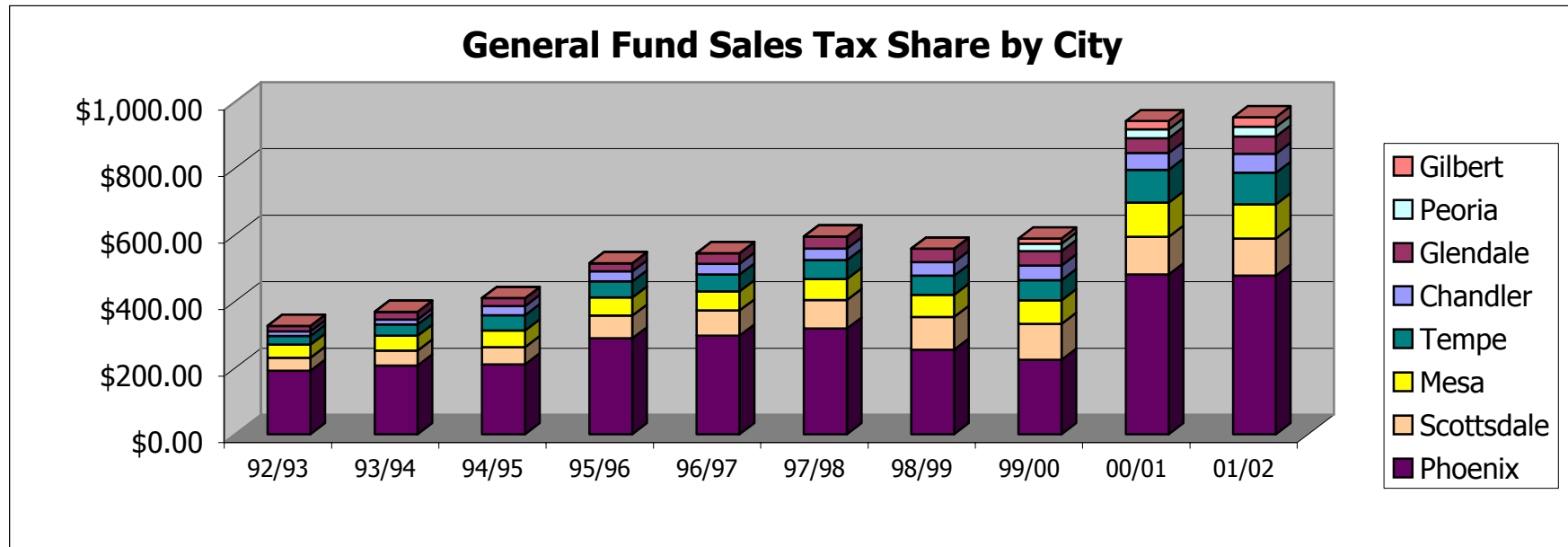
Exhibit J

Total General Fund Sales Tax Collections

FY 1992/93 – 2001/02

(in millions)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Phoenix	\$191.00	\$206.60	\$209.90	\$288.40	\$296.30	\$317.80	\$254.40	\$223.80	\$480.50	\$477.00
Scottsdale	\$39.10	\$44.90	\$52.20	\$68.10	\$75.70	\$85.90	\$98.30	\$108.10	\$113.50	\$111.70
Mesa	\$39.30	\$44.50	\$50.10	\$54.60	\$57.40	\$62.90	\$66.40	\$70.70	\$102.30	\$102.60
Tempe	\$26.40	\$33.80	\$45.70	\$48.40	\$50.80	\$56.70	\$57.50	\$60.50	\$98.90	\$94.60
Chandler	\$13.40	\$14.90	\$27.80	\$30.10	\$32.20	\$35.00	\$41.40	\$44.40	\$50.50	\$57.70
Glendale	\$16.50	\$23.40	\$23.60	\$24.90	\$32.30	\$36.50	\$39.80	\$42.90	\$44.60	\$51.60
Peoria	NA	NA	NA	NA	NA	NA	NA	\$22.50	\$26.20	\$29.10
Gilbert	NA	NA	NA	NA	NA	NA	NA	\$15.80	\$25.10	\$28.70

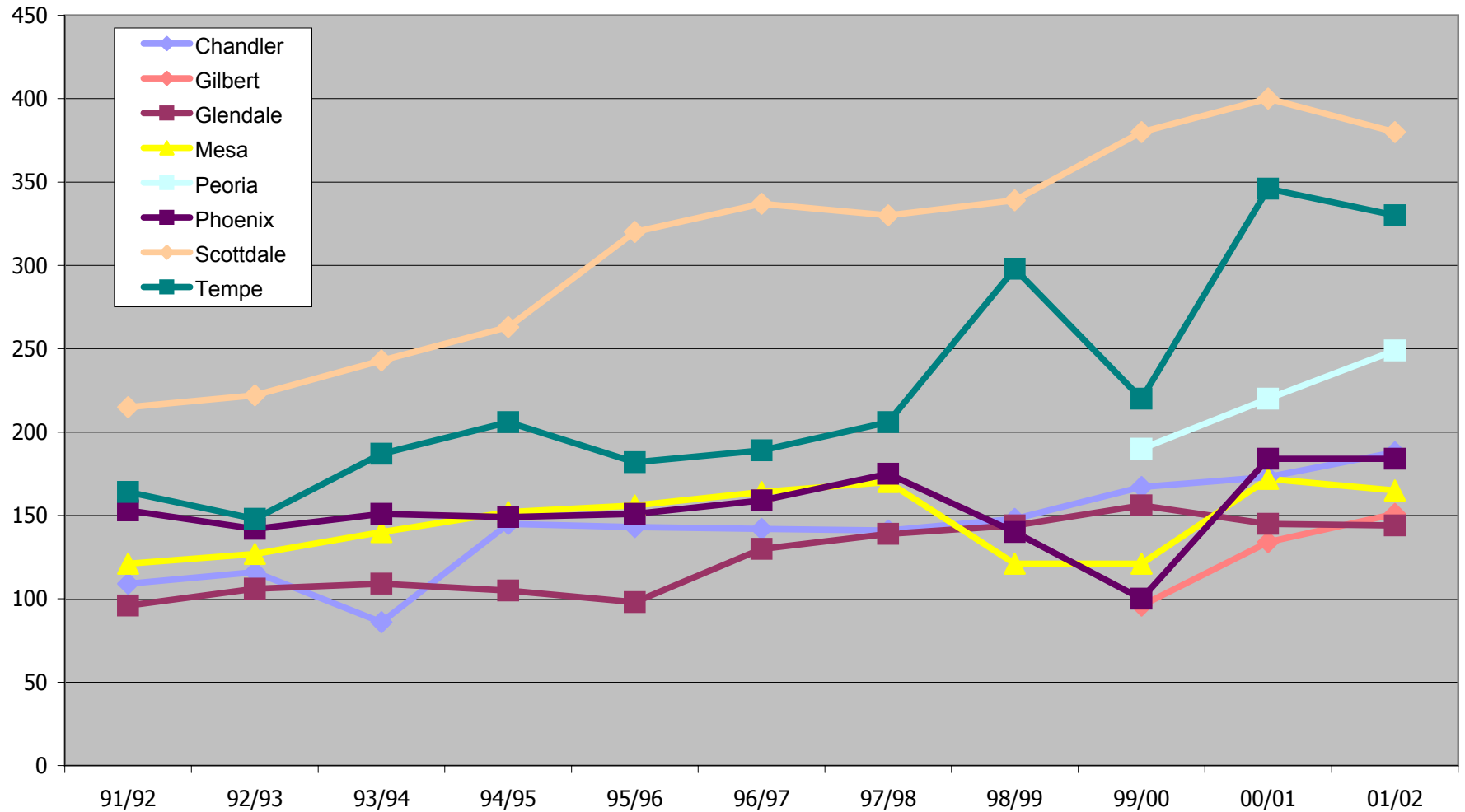


Source: City of Scottsdale Financial Services Department, and Office of Economic Vitality

Exhibit K

Sales Tax Collections Per Capita

(collections adjusted to 1%)



Source: City of Scottsdale - Office of Economic Vitality

Exhibit L

Community Retail Benchmarking

City	Website	Collateral Materials	Retail Program	Incentives
Apache Junction	X	X	X	Case-by-Case
Avondale	X	X	X	Case-by-Case
Chandler	X	X	X	Case-by-Case
Gilbert	X	X	X	Case-by-Case
Glendale	X	X	X	Case-by-Case
Goodyear	X	X	X	Super Retail Ordinance
Mesa	X			Case-by-Case
Phoenix	X		X	Case-by-Case
Scottsdale	X	X	X	Case-by-Case
Surprise	X	X	X	Case-by-Case
Tempe	X		X	In Development

Source: Office of Economic Development, City of Mesa